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# ASB meeting minutes, 2004, May 4; Auditing Standards Board conference call, approved highlights, 2004, May 4

American Institute of Certified Public Accountants. Auditing Standards Board

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## **AUDITING STANDARDS BOARD (ASB) MEETING**

**May 4, 2004**

**Conference Call**

***Approved Highlights***

### **MEETING ATTENDANCE**

#### **ASB Members**

John Fogarty , Chair  
Harold Monk, Jr., Vice Chair  
Barton Baldwin  
Gerald Burns  
Craig Crawford  
George Fritz  
James Goad  
Daniel Goldwasser  
Lynford Graham  
James Lee II  
Wanda Lorenz  
Susan Menelaides  
William Messier, Jr.  
Daniel Montgomery  
Diane Rubin  
Mark Scoles  
Scott Seasock  
Michael Umscheid

#### **ASB Member Absent**

Auston Johnson

#### **AICPA Staff**

Richard Miller, General Counsel & Trial Board  
Chuck Landes, Director, Audit and Attest Standards  
Gretchen Fischbach, Technical Manager, Audit and Attest Standards  
Sharon Walker, Technical Manager, Audit and Attest Standards  
Linda Volkert, Senior Technical Manager, Technical Hotline

## Guests

Barbara Darraugh, BNA

Julie Anne Dilley, PriceWaterhouseCoopers LLP

Robert Gray, Member, Audit Documentation Task Force

Diane Hardesty, Ernst & Young LLP

Cheryl Hartfield, Practitioners Publishing Company

Cindy Lawrence, Observer

Bella Rivshin, Public Company Accounting Oversight Board

## **AGENDA ITEMS PRESENTED AT MEETING**

### **Audit Documentation**

Lynford Graham, chair of the Audit Documentation Task Force, presented this matter to the ASB. The task force is charged with considering revisions to Statement on Auditing Standards (SAS) No. 96, *Audit Documentation*. L. Graham discussed the issues that the task force identified and the task force's recommendations to the ASB on each issue. A summary of the task force's recommendations, with which the ASB concurred, is as follows:

- a.* Amend SAS No. 96 to require audit documentation to contain sufficient information to enable an experienced auditor with no previous connection to the engagement to (1) understand the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached, and (2) determine who performed the work and reviewed the work. The amendment should define *experienced auditor*. That definition should take into consideration the need for the auditor to have an understanding of the relevant industry.
- b.* The audit documentation standard should recognize the role of professional judgment in documentation. For that reason, the last sentence of paragraph 1 of SAS No. 96 should be retained. Additional guidance should be provided specifying that professional judgment should be based on facts and circumstances existing at the time the documentation is prepared.
- c.* SAS No. 96 should not contain the rebuttable presumption that if the audit work was not documented, it wasn't performed. However, the Statement should be revised to clarify the role of oral explanations as a supplement to, and not a substitute for, audit documentation.
- d.* Revise SAS No. 96 to clarify that audit documentation serves to support the representations in the auditor's report regarding generally accepted auditing standards and generally accepted accounting principles.

- e. Amend SAS No. 96 to provide more specific guidance to help auditors exercise professional judgment regarding documentation of the action taken to address significant issues or findings and the basis for the conclusion reached (as required under paragraph 9 of SAS No. 96). This guidance will address documentation of disparate points of view and what is often referred to as “disconfirming” evidence.
- f. Consider clarifying the guidance in paragraph 7 of SAS No. 96. That paragraph contains a list of factors the auditor should consider when determining the nature and extent of audit documentation for a particular audit area or auditing procedure.
- g. A revised standard on audit documentation need not specify a retention period because such a requirement will not improve audit quality/effectiveness, which is an objective of auditing standards.
- h. Develop guidance for documenting work performed but not documented prior to the date the auditor grants permission to the client to use the audit report.

At the June 2004 ASB meeting, the task force expects to present draft guidance for each of the above recommendations.

### **Auditor’s Report**

The Auditor’s Report Task Force is charged with revising SAS No. 58, *Reports on Audited Financial Statements*, as amended (AICPA, *Professional Standards*, vol. 1, AU sec. 508). Harold Monk, chair of the Task Force, provided an update of the task force’s activities to date. In his report, H. Monk indicated that the task force will use International Standard on Auditing (ISA) 700, *The Auditor’s Report on Financial Statements*, as the basis for the new standard. The task force will retain, as appropriate, any guidance in SAS No. 58 that is not currently in ISA 700. Where guidance is needed to address issues or situations that neither ISA 700 nor SAS No. 58 address, the task force will develop new guidance. Currently, the task force is considering whether to develop new guidance to, among other things, require the auditor’s report to:

- a. Disclose instances in which the auditor has identified a material weakness in internal control and reported it to the audit committee (as that term is used in SAS No. 60, *Communication of Internal Control Related Matters Noted in an Audit*). The disclosure would be advisory in nature and intended to let users know *when* a material weakness has been identified and reported to the entity, not the type of material weakness identified.
- b. Describe not only the auditor’s and management’s responsibility with respect to the financial statements but also the “user’s responsibility.”